Which One Meets Your Needs?

The term versus permanent life insurance debate has gone on for years, as if it were possible to say that one type of coverage is all good, the other all bad. Sorry, it's just not that simple.

Term insurance is designed to help people purchase the protection they need when they can't afford to purchase all permanent insurance or when they only need coverage for a specific period of time. Term life insurance has a guaranteed death benefit but no cash value and the premiums will increase at pre-determined intervals such as 1 year, 5 years, 10 years and 20 years.

It is also very often the product of choice when protection needs may be high for a period of time, then drop back, such as when your family is growing. Term insurance can also be an effective way to supplement permanent insurance during high-need years, such as when family and other financial responsibilities are outpacing income.

In these situations, term coverage allows you to obtain crucial death benefit protection without breaking your budget. Also, if the coverage is convertible (the coverage can be "converted" to a comparable cash value policy, without the need to provide evidence of insurability), you can get the coverage you need today — with the ability to obtain permanent coverage in the future. In this respect, term insurance meets a valuable need.

The True Cost of Term Insurance
However, term insurance has its drawbacks. It certainly isn't right for all people or under all circumstances. Among its weaknesses, be aware of the following:

- You *do* have to "die to win." As unpleasant as that sounds, it's true. Term life insurance provides a death benefit only, for a specific period of time. When the term coverage expires, so does your protection. Also, if you stop paying premiums, the coverage ends. Period.
- Let's say that you own $500,000 of term insurance. You've kept the coverage in force for ten years, and the policy expires at midnight on December 31. If you die at 11:59 on New Year's Eve, your family receives the full $500,000 in death benefit proceeds. However, if you die at 12:01 on January 1, your family receives *nothing* under the policy, since the contract has expired.
- Purchasing term insurance is often compared to renting a house. When you rent, you get the full and immediate use of the house and all that goes with it, but only for as long as you continue paying rent. As soon as your lease expires, you must leave. Even if you rented the house for 30 years, you have no "equity" or value that belongs to you.
- There is the very real danger of becoming uninsurable when the term coverage expires. While many term policies are convertible to permanent coverage, others may not be. Most of all, even if the coverage is convertible, there are time limits. If the policy is allowed to expire, you may be required to reapply. If you are found to be uninsurable at that time, you will be without coverage.
- Since premiums increase at each renewal, the long-term cost of term can be burdensome. Many people buy term coverage when they're in their 20s because it seems more affordable when compared to a cash value life insurance policy with the same death benefit amount. By the time they're in their 40s, the coverage seems a bit pricey, as the rate goes up. In their 50s, the cost has generally outstripped the cost of permanent coverage. Finally, in their 60s, if not sooner, they drop the policy — not because they no longer need the protection, but because they usually can't afford it. Meanwhile, the person who may have paid more for that permanent policy in his or her 20s may still be paying the same premium. That's why the term policy's conversion privilege is so important. This valuable feature is usually available in the first few years of the policy, and allows you to convert to permanent insurance without submitting evidence of insurability. Converting to a permanent policy lets you "lock in" a fixed and level premium, and your coverage can never be canceled provided premiums are paid.

The Value of Permanent Life Insurance
Cash value life insurance is often the best long-term solution for many people. The reasons:

- Cash value life insurance provides life-long insurance protection, provided premiums are paid. With few exceptions, once you have been approved for the coverage, your policy cannot be canceled by the carrier. Regardless of your health, the insurance will remain in force.
- Despite higher initial premiums, cash value life insurance can actually be *less expensive* than term in the long run. Most permanent policies are eligible for dividends, which are not guaranteed, if and when they are declared by the insurance company. Many companies offer the option to apply current and accumulated dividend values towards payment of all or part of the premiums. If dividend values are sufficient, out-of-pocket premium payments may end or be reduced after several years, yet coverage can continue for life. So while premiums must be paid under both the permanent and term insurance plans, long-term out-of-pocket cost of permanent life insurance may be lower compared to the total cost for a term policy.
- It can eliminate the problem of future insurability. Cash value life insurance does not expire after a certain period of time. Also, some policies contain guaranteed purchase options, which allow you to buy additional coverage at specified times, regardless of your health.
- It builds *cash value*. This amount — part of which is guaranteed under many policies — can be used in the future for any purpose you wish. If you like, you can borrow cash value for a down payment on a home, to help pay for your children's education or to provide income for your retirement. (Note: Borrowing cash value from your policy requires the payment of loan interest and will affect your total policy values.) Plus, if you decide to stop paying premiums and surrender your policy, the guaranteed policy values are yours.

Recommendation: When purchasing coverage — renewing or converting a term policy — look at more than just the premium.